IN THE UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

GEMALTO S.A.,	§	
	§	
Plaintiff,	§	
	§	
v.	§	CIVIL ACTION NO. 1:15-cv-910-LY
	§	
CPI CARD GROUP INC.	§	**Jury Trial Demanded**
	§	
Defendant.	§	

PLAINTIFF GEMALTO S.A.'S RESPONSE TO DEFENDANT CPI CARD GROUP'S MOTION TO DISMISS AND/OR TRANSFER

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Plaintiff Gemalto S.A. ("Gemalto") responds to the motion (Docket #11; the "Motion") of Defendant CPI Card Group ("CPI") to Dismiss for Lack of Personal Jurisdiction and Brief in Support, and, in the Alternative, Motion to Transfer to the District of Colorado as follows:

I. Introduction

A. The Parties and Technology in Suit

This case involves the technology for EMV payment cards, which are also known as "smart cards" or "PIN and chip cards." Traditional credit cards use a magnetic strip containing account information that is "swiped" through a magnetic reader (or an imprint taken from the raised text on the card) to generate a slip for the customer to either physically or electronically sign. By contrast, EMV cards also contain a microprocessor and security software, which makes them dramatically more secure and less susceptible to fraud. While EMV cards have been widely used in Europe for many years, United States credit card issuers have only recently begun to migrate to this technology. *See generally* Crosman, P., "*Why Is the U.S. Taking So Long to Migrate to Chip Cards?*", AMERICAN BANKER (Nov. 10, 2015) (http://www.americanbanker.com/news/bank-technology/why-is-the-us-taking-so-long-to-migrate-to-chip-cards-1077765-1.html).

As detailed in the declaration of Bertrand Knopf (Ex. 1), Gemalto is the world leader in EMV card technology, and holds many patents in this space, including the patent in suit (U.S. Patent No. 5,944,833). CPI is the largest domestic manufacturer of payment cards. Recently, Gemalto learned that CPI was entering the EMV card market, and in April 2015 Gemalto advised CPI of Gemalto's patents in this area. The parties thereafter engaged in licensing negotiations, which were terminated on September 22, 2015 by one of CPI's counsel in this case. Gemalto filed this lawsuit shortly thereafter.

B. Synopsis of the Response

CPI argues that this Court lacks jurisdiction over it, or alternatively that this case should be transferred to the District of Colorado. These arguments are meritless. CPI's Motion admits that "CPI is registered to do business in Texas" (Motion at 5) and admits that "[m]any—maybe even most—West Texans have CPI-manufactured cards in their wallets" (Motion at 8). As will be demonstrated *infra*, CPI has "purposefully directed" its actions regarding its infringing EMV cards at Texas and this district, including what appear to be numerous and extensive contracts with large card issuers in Texas. It would thus hardly "offend traditional notions of fair play and substantial justice" for this Court to adjudicate a patent case involving CPI-manufactured cards carried by "many—maybe even most—West Texans." A more disingenuous motion to dismiss for lack of personal jurisdiction would be difficult to conjure up.

CPI also makes the predictable § 1404 motion to transfer this case to its "home turf" of Colorado. However, analysis of the factors considered for a § 1404 transfer simply do not require this Court to do so, nor should this Court choose to do so in the exercise of its discretion.

II. This Court Has Jurisdiction Over CPI[1]

CPI has sold and is selling infringing EMV cards into Texas. There is no serious question that CPI's EMV cards are in fact in the stream of commerce in this district; indeed, CPI admits that "[m]any—maybe even most—West Texans have CPI-manufactured cards in their wallets." For example, Gemalto's undersigned Austin counsel has a CPI-manufactured EMV card that was issued to him in this district, as shown by the marking on the back of the card:

[1] This Court is well aware of the applicable legal standards for deciding personal jurisdiction challenges in patent cases, including that all uncontroverted allegations in the complaint must be taken as true. *See, e.g.*, *Freescale Semiconductor, Inc. v. Amtran Tech. Co.*, 2013 U.S. Dist. LEXIS 187336, 10-11 (W.D. Tex. June 12, 2013) ("*Freescale I*"). Gemalto will thus not burden the Court by reiterating them.

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Further, it appears that CPI has been selling its EMV cards to numerous customers in Texas, including:

1. Woodforest National Bank, a Texas bank with branches in Houston, Dallas-Ft. Worth, San Antonio, and East Texas;
2. Bank of America in Dallas for card personalization services performed by Bank of America;
3. JPMorgan Chase's Chase® Bank in Dallas for card personalization services performed by Chase® Bank;
4. Texas credit unions including but not limited to University FCU and Austin Telco FCU, both based in Austin, Texas;
5. USAA, which is based in San Antonio, Texas;
6. TransFund clients located throughout Texas, including in the western district of Texas;
7. Clients of Jack Henry & Associates Inc. located throughout Texas, including in this district.

See declaration of Bertrand Knopf, attached as Exhibit 1 hereto.[2]

Because CPI has intentionally introduced infringing products into the stream of commerce in Texas, this Court has specific jurisdiction over it.[3] As this Court recognized in *Freescale I*, the law of the Court of Appeals for the Federal Circuit (which controls in this patent case) holds that specific jurisdiction exists when a defendant has purposefully shipped infringing products through an established distribution channel with the expectation that such products would be sold in the forum. *See Freescale I*, op. at 7 (citing *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1564-67 (Fed. Cir. 1994). This case is even stronger: CPI not only knows and intends that its EMV cards will wind up in the hands of most Texans, it is directly selling them to businesses in Texas. *Cf. AFTG-TG, LLC v. Nuvoton Tech. Corp.*, 689 F.3d 1358, 1365 (Fed. Cir. 2012) (citing the need for evidence that the infringing product actually reached the forum or that the forum was part of the defendant's continuous, established distribution channels).

That CPI is directly and intentionally selling infringing products into this forum distinguishes this case from *Freescale*. There, this Court ruled that a foreign component manufacturer that did not sell its products to Texas consumers or customers (instead, it sold to other companies who incorporated them into other products that were ultimately sold in Texas) had "no direct conduct, connection, or purposeful availment of Texas's laws that justifies the

2 Gemalto requested that CPI voluntarily stipulate to these facts. While acknowledging that CPI "has customers and/or end users in Texas," counsel for CPI has refused to do so. *See* Exhibit 2. To the extent that there is any factual question regarding whether CPI is actually selling EMV cards to customers in Texas and in this district, Gemalto requests that the instant motion be denied without prejudice and Gemalto given an opportunity to take limited jurisdictional discovery on this point. *See Freescale I*, op at 9.

3 While Gemalto believes that CPI's actions are sufficient to also support the exercise of general jurisdiction, it will focus its argument on specific jurisdiction because the majority if not all of CPI's activities directed toward or in the state of Texas are directly or indirectly related to its EMV card business.

exercise of personal jurisdiction in Texas." *Freescale Semiconductor, Inc. v. AmTran Tech. Co., Ltd.*, 2014 U.S. Dist. LEXIS 58044 (W.D. Tex. Mar. 19, 2014) ("*Freescale II*"). In contrast, CPI *does* sell its EMV cards directly into Texas, as well as to companies whose continuous, established distribution channels include Texas. *See World Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980) (differentiating between "isolated occurrence[s]" where a product finds its way into the forum state and sales that arise from the efforts of the manufacturer or distributor to serve the market for the product in the forum), *discussed in Freescale I*, op. at 5.[4] Further, by its own admission CPI is registered to do business in Texas, and has employees in this state. In short, CPI has purposefully availed itself of the benefits and protections of Texas, such that it should reasonably anticipate being haled into court in this forum. *See Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985). Because its contacts with Texas result from CPI's own actions, jurisdiction is proper. *See id.*; *see also Freescale I*, op. at 4.

Nor can CPI make the requisite "compelling case" that exercising jurisdiction over it would offend traditional notions of fair play and substantial justice. Factors that the Court can consider in this regard include: (i) the burden on the defendant; (ii) the forum State's interest in adjudicating the dispute; (iii) the plaintiff's interest in obtaining convenient and effective relief;

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[4] CPI cites to another patent case between it and other parties (including another Gemalto affiliate), *Serverside Group Ltd. v. CPI Card Group - Minn., Inc.,* 2012 U.S. Dist. LEXIS 20489 (D. Del. 2012). That case does not affect the analysis or change the outcome here. The patent claims in *Serverside* were for computerized financial card production equipment and for a method of applying a personalized image to a financial account access means. According to the judge in that case, the equipment "allowed a financial institution to offer customers the opportunity, over the [I]nternet, a credit or debit card with the picture of the customer on the card". *Id.,* op. at 4. Contrary to CPI's statement in the motion here, the judge there did not say that CPI could only be sued in Colorado. Instead, he found that the plaintiffs could not show that CPI had sold or offered to sell a platform to "anyone in Delaware (or to anyone anywhere)." *Id.,* op. at *7. The Court thus transferred the case to Colorado under § 1406(a). Tellingly, however, the *Serverside* court also noted that "[t]ortious injury would certainly have occurred *if there were infringing sales in Delaware*." *Id.,* op. at 11 (emphasis added). That, of course, is the case here.

(iv) the interstate judicial system's interest in obtaining the most efficient resolution of controversies; and (v) the shared interest of the several states in furthering fundamental substantive social policies. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 476-77 (1985).

1. The burden on the defendant.

Litigating this case in Austin is no more burdensome on CPI than litigating this case in Colorado would be on Gemalto. Indeed, CPI has not identified any burden that is not similarly faced by *any* non-Texas defendant. Under CPI's analysis, it would somehow "offend traditional notions of fair plan and substantial justice" anytime an out-of-state defendant is required to appear in a Texas court. Such is simply not the law. *E.g.*, *Burger King Corp. v. Rudzewicz*, 471 U.S. at 473 ("A State generally has a "manifest interest" in providing its residents with a convenient forum for redressing injuries inflicted by out-of-state actors").

CPI also claims that because its chip suppliers (which it calls the "real parties in interest") have signed contracts with it that specify a Colorado forum, that somehow affects the price of tea in this case. It does not. The question in this lawsuit is whether *CPI* has made, used, or sold products that infringe Gemalto's patent. Whether CPI may have contractual indemnification claims against its unnamed suppliers is immaterial to the only issue before this Court: CPI's liability to Gemalto.

2. Texas' interest in adjudicating the dispute

As CPI admits and as stated earlier, Texas' residents, including those in West Texas, are carrying infringing CPI EMV cards. CPI has sold them to Texas banks and financial institutions, and CPI ships those cards into the Texas market. This Court thus has a significant interest in protecting its citizens from the "tort" of patent infringement. According to the Federal Circuit:

> Among the most important rights in the bundle of rights owned by a patent holder is the right to exclude others. This right is not limited to a particular situs, but exists anywhere the patent is recognized. It seems questionable to attribute to a patent right a single situs. A patent is a federally created property right, valid throughout the United States. Its legal situs would seem to be anywhere it is called into play. This point is illustrated by the fact that, when an infringement occurs by a sale of an infringing product, the right to exclude is violated at the situs where the sale occurs.

Beverly Hills Fan Co., 21 F.3d at 1570. Texas has an interest in preventing the sale of infringing products in its state.

Many of the other claims asserted by CPI to preclude Texas courts from exercising personal jurisdiction are simply irrelevant, *e.g*., it matters not that Gemalto's patent has never before been asserted in a Texas court, just as it is irrelevant that trying this case in Colorado would be easier on CPI. CPI has not made a compelling showing on this second factor.

3. The plaintiff's interest in obtaining convenient and effective relief

Patent holders have the right to exclude others from making, using, selling, offering to sell, and importing the invention claimed by the patent. As plaintiff, Gemalto has a right to choose between proper forums and to have its rights enforced as judiciously and quickly as possible. Dismissing or transferring this case would unduly delay, for several months at least, getting to the merits of this case. While CPI may prefer that, it is not a defendant's interest that is a factor for this Court's consideration -- it is the *plaintiff's* interest. The longer it takes to get to the merits and adjudication of this case, the longer Gemalto's rights go unprotected.

CPI argues that because Gemalto does not directly sell products in this district (Gemalto does so through its subsidiaries), that is somehow material. It is not. Because Gemalto owns the patent in suit, it can enforce its rights in it regardless of whether or not it directly sells anything.

CPI has failed to make a compelling showing regarding this factor as well.

4. The interstate judicial system's interest in obtaining the most efficient resolution of controversies

CPI admits that this factor is "at best neutral." It thus it can hardly be part of the requisite "compelling case" that the exercise of jurisdiction would offend traditional notions of pair play and substantial justice. If anything, respecting a plaintiff's legitimate choice of forum, as opposed to indulging dilatory motion practice, best encourages the most efficient resolution of controversies.

5. The shared interest of the several states in furthering fundamental substantive social policies

As CPI concedes, there are no fundamental substantive social policies at issue here, as federal courts will all apply patent law according to the same yardstick. This factor thus cannot support the required "compelling case" against exercising jurisdiction.

In sum, CPI has failed to make any case, much less a compelling case, that the exercise of jurisdiction over it in this Court would offend traditional notions of fair play and substantial justice. CPI may not like the fact that it is being sued where it is committing acts of patent infringement, but such does not justify dismissal or transfer of this case.

III. This Case Should Remain Here.

Because this Court has personal jurisdiction over CPI, Federal Circuit precedent is clear: venue is proper in this Court. *See VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). Section 1406(a) is thus inapplicable.

This Court, of course, has the discretion to transfer venue under § 1404(a) if CPI demonstrates that a different forum is "clearly more convenient."[5] Examining the private and public interest factors in this case shows that CPI has not done so, and merely wants a transfer to

[5] Again, this Court is well aware of the applicable law governing § 1404(a) motions in patent cases. *E.g., Airbus S.A.S. v. Aviation Partners, Inc.*., 2012 U.S. Dist. LEXIS 91463, 9-11 (W.D. Tex. June 29, 2012) ("*Airbus*"). Gemalto will not burden the Court by reiterating it.

its "home turf." That is not an adequate reason to transfer this case, nor should this Court set a precedent that it is.

A. First Private Factor: Access to Sources of Proof

CPI first argues that because its corporate records are in Colorado and it is the defendant in a patent case, this factor favors it. However, CPI's motion also asserts that its third party microprocessor suppliers are the "real parties in interest." Motion at 10. None of these parties or their documents are in Colorado, nor does CPI explain how issuing document subpoenas to such third party witnesses out of a Colorado federal court will be somehow more convenient than subpoenas out of this Court.

CPI also ignores that Gemalto's records can be more conveniently had at its US affiliate's offices in Austin than they will be in Colorado. While the presence of a party's subsidiaries or affiliates in a district may not be material in a jurisdictional analysis, it is a factor to be considered in assessing the private interest factors under § 1404. *See, e.g., Express Scripts, Inc. v. Jefferson Health System, Inc.,* 2014 U.S.Dist. LEXIS 25057, 12 (E.D.Mo. Feb.27, 2014); *Meyer Mfg. Co. v. Telebrands Corp.*, 2012 U.S. Dist. LEXIS 49724, 11-22, 14 (E.D. Cal. Apr. 6, 2012).

CPI also claims that none of Gemalto's witnesses are in this district. CPI is wrong. As detailed in the attached Declaration of Bertrand Knopf, numerous employees of Gemalto's US affiliate reside in this forum and will be witnesses in this case. Additionally, there are third party witnesses in this forum. *See id.*

On this factor, CPI wishes to eliminate the minor inconvenience of producing its records and employees in Texas (where CPI admittedly already has employees and is registered to do business) by forcing Gemalto to do so in a state where Gemalto does not have offices. In short, it simply wants to substitute Gemalto's inconvenience for its own. Such does not justify a transfer under 1404(a). *E.g., X Techs., Inc. v. Marvin Test Sys.*, 2010 U.S. Dist. LEXIS 55516, *19 (W.D. Tex. June 7, 2010) (denying motion to transfer, noting that the requested transfer "would merely substitute the inconvenience of Plaintiff's witnesses for the convenience of Defendant's").

B. Second Private Factor: Availability of Compulsory Process

CPI fails to identify any third party witnesses that would be subject to compulsory process in Colorado but not in this forum. (While some CPI employees may well be in Colorado, CPI hardly needs compulsory process to get its own employees to testify.)

On the other hand, there are third party witnesses in this forum who would not be subject to a trial subpoena in Colorado. As detailed in the Knopf declaration, there are CPI customers in this district, including representatives of USAA (San Antonio), University FCU (Austin), and Austin Telco FCU (Austin). These customers will give testimony as to the demand and market for EMV cards that include the patented technology, the commercial success of the patented technology, and how use of the patented technology drives sales of other products – all of which will be relevant in assessing the *Georgia-Pacific* factors that the jury will have to consider in determining a reasonable royalty.

Because CPI has failed to identify any third party witnesses who could be subpoenaed in Colorado but not here, this factor does not favor transfer, much less does it demonstrate that Colorado is "clearly more convenient."

C. Third Private Factor: Cost of Attendance for Willing Witnesses

On this factor, CPI ignores that there are employees of Gemalto's US affiliate who reside in this district who will be witnesses in this case. Once again, CPI simply wants to substitute inconvenience to Gemalto for inconvenience to CPI, and that is not a proper basis for a transfer under § 1404.

D. Fourth Private Factor: Other Practical Concerns

Here, CPI only argues that because there is another CPI patent lawsuit in the District of Colorado (albeit one that does not include Gemalto, the patent in suit, or even the same technology), that somehow warrants transfer. CPI is wrong. There is nothing in the *Serverside* case that even remotely suggests that a Colorado court would have an advantage over this Court in adjudicating this case.

E. First Public Factor: Court Congestion

According to the most recent statistics from the Administrative Office of the United States Courts (http://www.uscourts.gov/statistics-reports/federal-court-management-statistics-june-2015)(Exhibit 3), the median "file to trial" time for civil cases in this district is 17.9 months. For the district of Colorado, on the other hand, the median "file to trial" time is 27 months – over 50% longer. This factor thus weighs against transfer.

F. Second Public Factor: Local Interest

As detailed in the Knopf declaration, Gemalto's U.S. affiliate is based in this district. While the presence of a party's subsidiary or affiliate in the forum may not be material to jurisdiction questions, it is relevant in deciding a § 1404(a) motion. *See, e.g., Express Scripts, Inc. v. Jefferson Health System, Inc.*, 2014 U.S.Dist. LEXIS 25057, 12 (E.D.Mo. Feb.27, 2014); *Meyer Mfg. Co. v. Telebrands Corp.*, 2012 U.S. Dist. LEXIS 49724, 11-22, 14 (E.D. Cal. Apr. 6, 2012). Gemalto submits that Texas has as much local interest in protecting the intellectual property rights of companies who do business in this state as Colorado does, and thus this factor is at best neutral.

G. Remaining Public Factors

CPI concedes that the remaining public interest factors (familiarity of the forum with the governing law and the avoidance of conflict of laws problems) are neutral because neither court is more familiar with patent law.

H. Deference to Plaintiff's Choice of Forum

Finally, this Court must accord some deference to Gemalto's choice of forum. *Airbus*, op. at *21-23. Gemalto selected this district because of convenience: it is where Gemalto's United States operations are based, and where many of its witnesses are located. Merely because CPI would prefer to litigate on its "home turf" is not a sufficient reason to disregard this choice. Indeed, were this Court to do so, it will be inviting § 1404(a) motions in every case involving a non-Texas defendant.

IV. Conclusion

Because CPI is selling infringing products into Texas, Gemalto properly filed this case in the Western District of Texas. Under settled Federal Circuit authority, this Court has personal jurisdiction over CPI and venue is proper here. CPI has not met the heavy burden of demonstrating that a transfer to the District of Colorado would clearly be more convenient; instead, it only seeks to substitute Gemalto's inconvenience for its own. CPI's motion should therefore be denied.

WHEREFORE, PREMISES CONSIDERED, Gemalto S.A. prays that this Court deny CPI Card Group, Inc.'s motion to dismiss or transfer; that in the alternative Gemalto be allowed to take limited jurisdictional discovery regarding CPI's sales into Texas; and for such and other relief as it me be entitled.

Respectfully submitted,

Date: November 30, 2015

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